

Message Text

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FOL REPEAT OF TOKYO 7143 TO SECSTATE MAY 30

QTE:
C O N F I D E N T I A L TOKYO 7143

E.O. 11652 GDS
TAGS: PFOR, EAID, US, JA, XM
SUBJECT: US-JAPAN CONSULTATIONS ON LATIN AMERICA

DEPARTMENT PLEASE PASS ALL ARA DIPLOMATIC POSTS

SUMMARY: SECOND DAY OF US-JAPAN CONSULTATIONS ON LATIN AMERICA FOCUSED ON A WIDE VARIETY OF ECONOMIC ISSUES, WITH PARTICULAR ATTENTION TO INVESTMENT, AID AND TRADE ISSUES.
END SUMMARY.

1. PRIVATE INVESTMENT ENVIRONMENT. KLEINE SUMMED UP OUR APPRECIATION OF CURRENT ENVIRONMENT, NOTING TENDENCIES TOWARDS MORE RESTRICTIVE ENVIRONMENT, WHICH, HOWEVER, SEEM LESS DIGNIFICANT TO US BUSINESS THAN STABILITY OF RULES. IN RESPONSE, DATE SAID GOJ ASSESSMENT IS BASICALLY SAME AS USG'S. GOJ DOES FEEL THERE IS ROOM FOR INCREASE IN JAPANESE PRIVATE INVESTMENT, PARTICULARLY IN SOCIAL AND ECONOMIC DEVELOPMENT FIELDS, IN PART BECAUSE LEVEL OF
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JAPAES INVESTMENT STILL REMAINS MUCH SMALLER THAN THAT OF US. JAPANESE INVESTMENT IN LA ROSE TO 2.4 BILLION DOLLAARS IN 1974, A FOUR INCREASE OVER PREVIOUS YEAR.

2. ASST. SEC. ROGERS RAISED QUESTION OF MARCONA NEGOTIATIONS IN PERU. FIRST DIR. NAKASONE REPLIED THAT OFFICIAL GOJ POSITION IS ONE OF NEUTRALITY, BUT THAT IT HAD TOLD GOP THAT IT WOULD LIKE TO SEE NEGOTIATIONS BROUGHT TO A CONCLUSION WHICH WOULD SATISFY BOTH PARTIES. NAKASONE TOLD US, QTE CONFIDENTIALLY UNQTE THAT MARCONA HAD WANTED TO SET UP A PELLETIZING PLANT WITH COOPERATION OF CERTAIN JAPANESE TRADING FIRMS. THESE HAD DECIDED TO HOLD OFF UNTIL THE EXPROPRIATION ISSUE IS RESOLVED. LE NOTE PARENTHETICALLY THAT PRESS HERE CARRIED STORY THAT A MARCONA REPRESENTATIVE IS NOW VISITING TOKYO TO DISCUSS A PELLETIZING PROJECT IN BRAZIL.

3. JAPAN-US COOPERATION IN MAJOR PROJECTS. DEPUTY DIR. GEN, NAITO RAISED CONCEPT OF US-JAPAN JOINT DEVELOPMENT PROJECTS. HE SUGGESTED THAT LATINS WERE TAKING ADVANTAGE OF US-JAPANESE COMPETITION OVER INVESTMENT OPPORTUNITIES, AND SUGGESTED WE COULD PROTECT OURSELVES AGAINST EXPROPRIATION AND STRIKE A BETTER DEAL BY COM-

BINING FORCES FOR MAJOR INVESTMENT PROJECTS. BOTH SIDES AGREED THAT SITUATION WAS PRIMARILY ONE FOR PRIVATE SECTORS OF TWO COUNTRIES, BUT ROGERS SAID HE MIGHT SAY SOMETHING ABOUT THIS IDEA TO COUNCIL OF THE AMERICAS MEETING IN WASHINGTON NEXT WEEK. BOTH SIDES AGREED THAT POSSIBILITIES OF JOINT ENTERPRISES SHOULD NOT BE LIMITED TO JAPAN AND THE US, BUT MIGHT WELL INCLUDE EUROPEANS AS WELL AS LOCAL INVESTORS IN HOST COUNTRY. ECONOMIC COOPERATION BUREAU DEPUTY DIR. GEN. ISHII OPINED THAT JAPANESE ENTERPRISES ARE BECOMING MORE RECEPTIVE TO IDEA OF MULTILATERAL ENTERPRISES FOR TWO REASONS: 1) THEY ENHANCE THE SECURITY OF THE PROJECT AND ITS PROFIT, AND 2) AS JAPANESE ENTERPRISES ARE INTERESTED IN IMPLEMENTING NUMEROUS LARGE OVERSEAS INVESTMENTS, THEY WANT AND NEED FINANCIAL COOPERATION
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FROM INVESTORS IN OTHER COUNTRIES.

4. ANDEAN INVESTMENT CODE. KLEINE SUMMARIZED U.S. PERCEPTION. NAKASONE SAID THAT GOJ HAS NOT BEEN TOO APPREHENSIVE CONCERNING INVESTMENT CODE BECAUSE GOJ UNDERSTANDS DIFFERENCE BETWEEN WORKING OF THE CODE AND ITS ACTUAL IMPLEMENTATION. JAPANESE UNDERSTAND THAT FUTURE INVESTMENTS MUST BE SUBJECT TO CODE. GOJ SENT EVALUATION MISSION TO ANDEAN COUNTRIES LAST YEAR, ITS REPORT WAS FAIRLY ENCOURAGING, RATING SECRETARIAT'S ADMINISTRATIVE ABILITY AS FAIRLY GOOD AND PLANNING ABILITY AS NOT SO BAD. JAPAN INTENDS TO HONOR SECRETARIAT REQUEST TO SEND EXPERTS TO HELP PLANNING STAFF.

5. BILATERAL TRENDS OF US AND JAPANESE AID.

A) ISHII REVIEWED JAPANESE AID PERFORMANCE. 1973 WAS BANNER YEAR; 1974 WAS NOT. ODA DID STAY THE SAME (1,126 MILLION DOLLARS OR 0.25 PERCENT OF GNP IN 1974 COMPARED TO 1,011 MILLION DOLLARS OR 0.25 PERCENT OF GNP IN 1973). BUT TOTAL FLOWS SUFFERED A HUGE DROP TO 2,962 MILLION DOLLARS OR 0.66 PERCENT OF GNP (COMPARED TO 5,844 MILLION DOLLARS OR 1.42 PERCENT OF GNP IN 1973). (THESE STATISTICS SHOULD BE TREATED CONFIDENTIALLY UNTIL ANNOUNCED BY GOJ AROUND MID-JUNE.) ISHII ATTRIBUTED THIS TO DECREASED COMPETITIVENESS OF JAPANESE ENTERPRISES DUE TO CURRENCY REALIGNMENTS AND TO MOF RESTRICTIONS ON THE OUTFLW OFFUNDS. LATIN AMERICA'S SHARE OF JAPAN'S OUTWARD FLOWS IN 1974 REMAINED ROUHLY THE SAME AS IN 1973. 4.5 PERCENT OF BILATERAL OFFICIAL LOANS (4.6 PERCENT IN 1973), 55.4 PERCENT OF DIRECT INVESTMENT (55.4 PERCENT IN 1973) AND 26.8 PERCENT OF EXPORT CREDITS (43.1 PERCENT IN 1973.)

B) GOJ ANTICIPATE FEW GRANTS TO LATIN AMERICAN COUNTRIES BEYOND TECHNICAL ASSISTANCE (THOUGH ITS RECENT CONTRIBUTION TO IDB--80 MILLION DOLLARS OVER THREE YEARS--IS A GRANT); OFFICIAL LOANS MAY GO TO RELATIVELY POOR COUNTRIES SUCH AS BOLIVIA AND PARAGUAY (WHICH WOULD RECEIVE FIRST PRIORITY), PERU, COLOMBIA, AND ECUADOR. JAPANESE RECOGNIZED IMBALANCE BETWEEN HIGH PERCENTAGE OF INVESTMENT FLOWS TO LA AND LOW PERCENTAGE TO LA OF ODA AND OTHER OFFICIAL FLOWS. CONFIDENTIAL

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JAPANESE WERE INTERESTED IN REIMBURSABLE TECHNICAL ASSISTANCE CONCEPT FOR RICHER COUNTRIES.

C) KLEINE REVIEWED US PERFORMANCE, NOTING THAT DECREASED AID TO LATIN AMERICAN REFLECTS WORLD-WIDE CUTBACKS IN THE U.S. AID PROGRAM. HE ALSO NOTED USG INCREASED EMPHASIS ON AID THROUGH IFI'S AND CONCENTRATION OF BILATERAL AID ON POOREST MAJORITY IN POOREST COUNTRIES.

D) JAPANESE ASKED ABOUT MILITARY ASSISTANCE LEVELS. ROGERS AND KLEINE GAVE SKETCH OF SITUATION AND PROMISED THAT AN AIDE MEMOIRE WITH THE DATA WOULD BE FURNISHED JAPANESE EMBASSY IN WASHINGTON.

6. MULTILATERAL AID INCLUDING I.D.B.

KLEINE REITERATED THAT USG APPROACH HAD BEEN COMBINATION OF MAINTAINING STRONG BILATERAL CAPACITY FOR AID TO POOREST COUNTRIES WHILE ENCOURAGING BUILDING UP OF IFI'S. NEXT BIG ITEM OF INTEREST WILL BE IDB REPLENISHMENT WHICH KLEINE REVIEWED. ISHII SAID GOJ

CONCERNED ABOUT IDB RATIFICATION PROBLEM AND WHETHER
LA COUNTRIES WILL TAKE ACTIONS IN TIME.

7. JAPANESE EXPRESSED CONSIDERABLE CONCERN OVER RE-
PORT FROM SANTO DOMINGO THAT PROPOSED RESOLUTION ON
NON-REGIONALS HAD BEEN AMENDED BEFORE IT WAS FINALLY
PASSED IN SUCH A WAY AS TO SUGGEST THAT REGIONALS HAD
EACH AND ALL TO RATIFY THE DEAL BEFORE ANYTHING FURTHER
COULD BE DONE. JAPANESE SAID IT MAY NOW BE DIFFICULT
TO SUBMIT AGREEMENT TO DIET UNTIL REGIONALS ARE ALL
IN LINE, AND JAPANESE FEAR RESULT MAY BE ANOTHER YEAR'S
DELAY IN THE SUBMISSION OF THE PROPOSAL TO DIET. WE
PROMISED THEM THAT WE WOULD PROVIDE IMMEDIATE CLARI-
FICATION.

8. ENERGY.

ROGERS REVIEWED EFFECTS OF FOUR-FOLD RISE IN
OIL PRICES OF LATIN AMERICA. KATAKURA NOTED THAT ONLY
0.18 PERCENT OF JAPAN'S OIL IMPORTS ARE FROM LATIN
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AMERICA, BUT NOTED JAPANESE INTERESTS IN NEW DISCOVERIES
IN PERU AND POSSIBLY BRAZIL AND SAID MEXICO MIGHT
EVEN RIVAL SOME PERSIAN GULF STATES AS A MAJOR OIL
PRODUCER IN A FEW YEARS. KATAKURA ADDED THAT DATA WAS TEN-
TATIVE AND THAT JAPANESE PRIVATE INDUSTRY HAD DOUBTS AS TO WHETHER
PROVEN RESERVES IN PERU WOULD ACTUALLY INCREASE FROM
CURRENT 50,000 B/D TO 200,000-300,000 B/D LEVEL
NECESSARY TO JUSTIFY \$230 MILLION PIPELINE NOW UNDER
CONSTRUCTION AND SCHEDULED FOR COMPLETION BY MID-1977.
IN RESPONSE TO JAPANESE QUESTIONS ON MEXICO, ROGERS
CONFIRMED CONSIDERABLE POTENTIAL OF MEXICAN DISCOVERIES
AND STRESSED SENSITIVITY OF MEXICANS TO FOREIGN COMMENTS
ON THIS SCORE.

9. BILATERALISM. DIRECTOR CENTRAL AND SOUTH
AMERICA DIVISION NAKASONE EXPRESSED CONCERN THAT IN
SETTING UP BILATERAL CONSULTATIONS WITH MORE POWERFUL
LATIN AMERICAN COUNTRIES SUCH AS VENEZUELA AND BRAZIL,
THE US WAS NOT SUFFICIENTLY TAKING INTO ACCOUNT
THE REACTION - SMALLER LATIN AMERICAN COUNTRIES
WHO ALREADY HAVE ACCUSED VENEZUELA OF QUOTE NEO-
COLONIALISM UNQUOTE. ROGERS ACKNOWLEDGED BILATERAL
APPROACH COULD HAVE COSTS AS WELL AS BENEFITS, AND
SAID U.S. IS TRYING TO ASSURE SMALLER NATIONS THAT
IT WILL NOT LOSE SIGHT OF THEIR INTERESTS.

10. RAW MATERIALS.

A) KATAKURA NOTED THAT IN WAKE OF OPEC SUCCESSES,
BAUXITE, IRON AND MERCURY PRODUCER UNIONS HAVE BEEN
ESTABLISHED. JAPAN FORESEES NO SERIOUS EFFECTS FROM
IRON UNION, BUT WILL MONITOR PRICE MOVEMENTS CLOSELY.

JAPAN IS 30 PERCENT DEPENDENT ON CPEC FOR COPPER WITH 14 PERCENT COMING FROM LATIN AMERICAN, BUT 40 PERCENT OF COPPER NEEDS ARE SUPPLIED BY CANADA AND PHILLIPINES, EITHER OF WHICH IS A MEMBER OF CPEC. LATIN AMERICAN SUPPLIES ONLY ONE PERCENT OF JAPAN'S BAUXITE, WHILE AUSTRALIA SUPPLIES 63 PERCENT, AND JAPAN EXPECTS AUSTRALIA TO EXERCISE MODERATING INFLUENCE ON IBA..

B) IN RESPONSE TO ROGERS'S QUESTIONS, KATAKURA SAID GOJ FAVORS COMMODITY-BY-COMMODITY APPROACH TO RAW
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MATERIALS AGREEMENTS. JAPANESE SIDE SEEMED UNCERTAIN AS TO WHETHER LATIN AMERICAN COUNTRIES WOULD SUPPORT THIS APPROACH.

C) DIRECTOR GENERAL DATE EXPRESSED SOME SURPRISE AT US EQUANIMITY TOWARDS SELLA, BUT AGREED THAT US OPTIONS ARE NARROW AND SAID THAT SELLA PROBABLY POSES LITTLE THREAT AS VEHICLE FOR COORDINATING UNITED FRONTS ON COMMODITY ARRANGEMENTS.

11. US TRADE ACT.

ROGERS EXPLAINED THAT LATIN AMERICAN ATTENTION HAD FOCUSED ALMOST EXCLUSIVELY ON OPEC EXCLUSION PROVISION, BUT UNDERSTANDING IS GROWING OF BENEFITS TO LATIN AMERICAN IN TRADE ACT. SAITO, DIRECTOR OF SECOND NORTH AMERICA DIVISION (ECONOMIC) RESPONDED THAT IN GENERAL GOJ ITSELF IS SATISFIED WITH TRADE ACT, BUT FELT THAT IF OPEC EXCLUSION PROVISION NOT REMOVED, U.S. LATIN RELATIONS WOULD SUFFER. ROGERS AGREED AND SAID ADMINISTRATION HOPES AND EXPECTS AMENDMENT IN REASONABLY NEAR FUTURE. SAITO SAID THAT JAPAN IS WRESTLING WITH A LIST OF ITEMS TO PRESENT AT GENEVA MLT NEGOTIATIONS BUT STAGNANT ECONOMY IN JAPAN WAS MAKING IT DIFFICULT TO OBTAIN INTERNAL AGREEMENT.

12. JAPAN AND US TRADE WITH LATIN AMERICA.

DATE PRESENTED PAPER SHOWING THAT THROUGH 1960'S JAPAN'S BALANCE OF TRADE WITH LATIN AMERICA WAS IN LATTER'S FAVOR, BUT IN 1970'S TREND REVERSED AND IS EXPECTED TO CONTINUE FOR NEAR AND MEDIUM TERM, ALTHOUGH IMBALANCES SHOULD NOT BE SUCH AS TO POSE SERIOUS PROBLEMS FOR BILATERAL RELATIONS. MAIN OBSTACLES TO INCREASING IMPORTS FROM LATIN AMERICA ARE PRODUCTION BOTTLENECKS AND LACK OF PRODUCT SUITABILITY FOR JAPANESE MARKET. JAPAN HAS SENT A MISSION TO BRAZIL TO PROMOTE TRADE AND INVESTMENT RELATIONS AND JETRO WILL HOLD A BIG EXPOSITION FOR LATIN AMERICAN PRODUCTS IN TOKYO THIS FALL. IN RESPONSE TO ROGER'S QUESTION CONCERNING JAPANESE EXPERIENCE WITH LA COUNTRIES RE JAPAN'S GENERALIZED SYSTEM IN EFFECT SINCE 1971, KATAKURA SAID THAT IT DID NOT SEEM TO HAVE HAD ANY MARKED EFFECT ON TRADE WITH THE REGION AND

THERE HAD BEEN NO COMPLAINTS FROM LATIN AMERICAN NATIONS
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ABOUT ITS ADMINISTRATION.

13. ACTION REQUESTED. DEPT PROVIDE BY IMMEDIATE CABLE CLARIFICATION
RE IDB REGIONAL MENTIONED PARA 7 ABOVE.
HODGSON UNQTE INGERSOLL

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